

## Message Text

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SUBJECT:MEETING BETWEEN EXIMBANK CHAIRMAN MOORE AND  
SPANISH FINANCE MINISTER

1. RESPONDING TO THE AMBASSADOR'S REQUEST FOR AN URGENT  
REPORT, THIS TELEGRAM PROVIDES THE MEMORANDUM OF CONVER-  
SATION BETWEEN FINANCE MINISTER FERNANDEZ ORDONEZ AND  
CHAIRMAN MOORE AT EXIMBANK MARCH 20, 1978.

2. SPAIN'S ENERGY PROGRAM  
THE MINISTER RATHER STRONGLY CONTRADICTED ALL THAT EXIM-  
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BANK HAS HEARD OVER THE LAST FEW MONTHS AS TO WHAT THE  
NEW ENERGY PLAN WILL CONSIST OF. THE MINISTER INDICATED  
THAT THE NEW PLAN WOULD NOT, AS WE HAVE HEARD, POSTPONE  
ANY NEW NUCLEAR PLANTS UNTIL THE MID 1980'S BUT RATHER  
THE CONSTRUCTION OF THEM WOULD CONTINUE. HE EXPLAINED  
THAT HYDRO SOURCES ARE FULLY UTILIZED, THERE HAVE BEEN NO  
SIGNIFICANT DISCOVERIES OF OIL EITHER ON OR OFF-SHORE  
SPAIN, AND THAT SPAIN'S COAL RESERVES ARE OF RATHER LOW  
QUALITY AND LIMITED. THE MINISTER RECOGNIZES THE MAJOR

FINANCING AN ONGOING NUCLEAR PROGRAM WOULD REQUIRE, AND HE INDICATED GREATER GOVERNMENTAL PARTICIPATION IS A REAL POSSIBILITY BUT HAS NOT YET BEEN DECIDED.

### 3. SPANISH STEEL COMPANIES

THE MINISTER ACKNOWLEDGED THE DIFFICULTY BEING EXPERIENCED BY SPANISH STEEL INDUSTRY WHICH SELLS ONLY 10 MILLION TONS OF STEEL PER YEAR OUT OF A PRODUCTION CAPABILITY OF 14 MILLION TONS. INI IS NEGOTIATING WITH ALTOS HORNOS DE MEDITERRANEO WITH A VIEW TOWARD INI'S ACQUISITION OF THAT COMPANY BUT FERNANDEZ ORDONEZ, WHO WILL HAVE FINAL AUTHORITY OVER SUCH AN ACQUISITION, IS NOT ENTIRELY CONVINCED THAT THIS IS THE BEST SOLUTION. IT LEAVES UNRESOLVED HOW TO TREAT ALTOS HORNOS DE VIZCAYA WHICH IS PRIVATELY OWNED AND IS ALSO EXPERIENCING FINANCIAL PROBLEMS. POLITICIANS OF THE LEFT WANT AN OUTRIGHT NATIONALIZATION OF THE WHOLE SPANISH STEEL INDUSTRY. IN ANY CASE, IT APPEARS THAT SOME GOVERNMENT ACTION TO SHORE-UP THIS TROUBLED INDUSTRY WILL BE FORTHCOMING SHORTLY.

### 4. THE LEMONIZ BOMBING BY ETA TERRORISTS

THE MINISTER ASKED FOR DETAILS CONCERNING THE ATTACK ON THE LEMONIZ PLANT, AND WE WERE ABLE TO SUPPLY HIM WITH CERTAIN DETAILS RECEIVED FROM IBERDUERO AND WESTINGHOUSE. LIMITED OFFICIAL USE

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THIS PERMITTED US TO EXPRESS OUR CONCERN ABOUT SUCH OCCURRENCES. WE EXPLAINED THAT WE WOULD, WHILE MR. MOORE IS IN MADRID, EXPLORE WITH APPROPRIATE GOS OFFICIALS THE NEED FOR ADEQUATE INSURANCE TO COVER SUCH CONTINGENCIES OR GOS PLANS FOR REQUIRING OR PROVIDING SOME FORM OF INSURANCE. THE MINISTER SAYS THE ETA TERRORISTS NUMBER ABOUT 100 MEMBERS AND ARE ACTIVE ONLY IN THE BASQUE AREA, NOTABLY BILBAO AND SAN SEBASTIAN, AND MUST BE SEVERELY DEALT WITH. THE MINISTER FEELS THE ETA DOES NOT ENJOY ANY NOTABLE POPULAR SUPPORT, MOST ESPECIALLY OUTSIDE OF THE BASQUE REGIONS.

### 5. THE SPANISH ECONOMY

ON ECONOMIC MATTERS, IN RESPONSE TO A QUESTION ON THE RESULTS OF THE MEASURES OF THE MONCLOA PACT, SR. FERNANDEZ ORDONEZ SAID THAT THE PROGRAM HAS BEEN VERY SUCCESSFUL AT MEETING THEIR OBJECTIVES: 1- INFLATION IS BEING REDUCED (HE PREDICTED THAT INFLATION WOULD BE CUT TO 15 PERCENT BY THE END OF THIS YEAR); AND 2- THE BALANCE OF PAYMENTS HAS BEEN RESTORED TO A MUCH MORE MANAGEABLE LEVEL OF DEFICITS.

6. THE RESTRICTIVE MEASURES OF THE MONCLOA PACT WHICH WERE NECESSARY FOR ECONOMIC STABILIZATION WERE IMPOSED AT A TIME OF ECONOMIC STAGNATION IN SPAIN AND VERY SLOW

RATES OF GROWTH IN EUROPE. THE NEXT PHASE OF ECONOMIC OBJECTIVES, AFTER THE MONCLOA PACT PHASE, WOULD CALL FOR MEASURES TO STIMULATE ECONOMIC GROWTH AND DECREASE UNEMPLOYMENT. THE MINISTER FRANKLY STATED THAT SPAIN NEEDS

A GROWTH RATE OF 5 PERCENT JUST TO KEEP UNEMPLOYMENT FROM RISING. SINCE THIS YEAR THE GROWTH RATE WILL ONLY BE ABOUT 1 PERCENT, THE UNEMPLOYMENT SITUATION IS BECOMING VERY SERIOUS, ESPECIALLY IN THE SOUTHERN REGIONS OF SPAIN. HOWEVER, THE POLICY OPTIONS ARE STILL VERY NARROW SINCE REFLATIONARY MEASURES COULD AGGREGATE INFLATIONARY FORCES AND AGAIN DRAW IN A FLOOD OF IMPORTS.  
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7. INVESTMENT IS STILL DEPRESSED SINCE EXCESS CAPACITY IS VERY HIGH. NO NEW INVESTMENT COULD BE EXPECTED UNTIL AFTER THE ECONOMY PICKS UP AND THE CAPACITY IS REDUCED, A PERIOD WHICH IS STILL SOMETIME IN THE NOT TOO NEAR FUTURE. THESE PROBLEMS IN SPAIN, HE SAID, ARE COMMON TO MOST INDUSTRIALIZED COUNTRIES AT THIS TIME.

8. THE MINISTER SAID THAT THE SPANISH GOVERNMENT DOES NOT IMPOSE LIMITS ON THE AMOUNT OF PRIVATE FIRMS' FOREIGN BORROWINGS. HE SAID THAT THE MINISTRY OF FINANCE WOULD PREFER FIRMS TO BORROW AT HOME AND STATED THAT THERE NOW IS NO NEED FOR FIRMS TO BORROW ABROAD SINCE SUFFICIENT CAPITAL IS STILL AVAILABLE DOMESTICALLY. SPAIN'S TOTAL EXTERNAL PUBLIC AND PRIVATE DEBT IS NOW ABOUT 14 BILLION DOLLARS, WITH A DEBT-SERVICE RATIO OF ABOUT 18 PERCENT.

9. ON THE QUESTION OF EC MEMBERSHIP, THE MINISTER STATED THAT THE THREE RECENTLY ESTABLISHED DEMOCRATIC GOVERNMENTS IN GREECE, PORTUGAL, AND SPAIN WOULD PROBABLY MOVE TOGETHER IN INTEGRATING INTO THE EC. HE STATED THAT HE THOUGHT THERE WERE DEFINITE ADVANTAGES FOR SPAIN IN JOINING THE EC, AND INDICATED THAT THE PROBLEMS OF THE INTEGRATION OF THE AGRICULTURAL SECTORS AND MARKETS WOULD BE DIFFICULT BUT NOT INSURMOUNTABLE.

10. THE SPANIARDS NOTED THAT MOST COUNTRIES, INCLUDING THE US, WERE HAVING DIFFICULTIES IN ADJUSTING TO THE NEW ECONOMIC REALITIES SINCE 1974, FOLLOWING THE OIL PRICE CRISIS. THE PROBLEMS OF ENERGY SUPPLIES AND COSTS WILL PERSIST UNTIL LONGER-TERM ADJUSTMENTS CAN BE MADE. THE DELEGATION LEFT US WITH THE IMPRESSION THAT ALTHOUGH  
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SPAIN HAS BEEN SUCCESSFUL SO FAR IN MEETING ITS SERIOUS ECONOMIC PROBLEMS, SPAIN, LIKE MANY OTHER COUNTRIES, IS IN FOR SEVERAL MORE YEARS OF SLOW RECOVERY. SUCH RECOVERY WILL DEPEND ON MAJOR STRUCTURAL CHANGES IN THE ECONOMY, CONTINUED POLITICAL STABILITY, AND THE AVOIDANCE OF ANOTHER RECESSION IN THE REST OF THE INDUSTRIALIZED NATIONS. VANCE

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